Gale Directory of Company Histories:
MAI Systems Corporation
Type: Wholly Owned Subsidiary of BGLS Inc.
Address: 9501 Jeronimo Road, Irvine, California 92718-2018, U.S.A.
Telephone: (714) 580-0700
Fax: (714) 580-2378
Employees: 800
Sales: $115.29 million
Incorporated: 1984 as MAI Basic Four, Inc.
SIC: 7373 Computer Integrated Systems Design

MAI Systems Corporation sells a wide range of computer equipment and related services to businesses throughout North America and Latin America.
The company specializes in mid-range, multi-user computer systems and their system software, other network products, and application software
designed for several specific industries. These industries include transportation, wholesale distribution, manufacturing, healthcare, retail, and
hospitality and gaming. The company purchases and resells hardware platforms manufactured by others, marketing them under its proprietary

"MAI" trademark or under a variety of vendor labels. MAI conducts its business through four independent operating units. The largest unit, MAI North
America, markets OpenBASIC, a tool that allows software written in Business BASIC language to run on several different industry standard hardware
platforms. This unit contributed about 69 percent of the company's total revenue in 1994. MAI's Computerized Lodging Systems Hospitality Group
provides software systems for hotels, resorts, casinos, and other such businesses. MAI sells manufacturing software for the chemical,
pharmaceutical, and food industries through its Sextant Corporation unit. The fourth business unit, MAI Latin America, markets hardware, software,
and support services throughout Central and South America.

MAI's history can be traced to 1957, when Management Assistance Inc. was founded by Walter R. Oreamuno. Oreamuno, a native of Costa Rica, had
landed his first job in the United States after winning an IBM problem solving contest. In forming Management Assistance Inc. (MAI), Oreamuno
essentially invented the computer-leasing business. The business computer situation in the mid-1950s was completely dominated by IBM, which
manufactured virtually all of the computers in use and leased them to the companies that used them. When IBM began to sell the computers in
addition to leasing them in 1956 (under pressure from the Justice Department), Oreamuno recognized that a potentially lucrative role as middleman
had opened up. Oreamuno and his associate, Jorge M. Gonzalez, approached IBM customers with an attractive offer: if the customer would buy the
equipment from IBM, MAI would immediately buy it from the customer, then lease it right back to them at a rate lower than IBM was offering.
Oreamuno's novel idea was an immediate hit, and the company grew at a phenomenal rate through the early 1960s. Because IBM was depreciating
its equipment very quickly, MAI was able to buy up used machines at a fraction of their original cost. In 1961, MAI offered its stock to the public,
raising $300,000. The company continued to raise as much capital as quickly as it could, through private investments, loans, and further public
offerings. Over a span of six years, MAI bought about $200 million worth of computer equipment. The company became a favorite on Wall Street,
and its stock soared as high as $45 a share in 1966.

However, in the second half of the 1960s, MAI was challenged by a rapidly changing market.

In 1965, IBM unveiled its third-generation 360 computer. The appearance of the 360 proved problematic for MAI, since it had already sunk so much of its money into older punch-card equipment. Since MAI's customers had two-year contracts with month-to-month cancellation options, the company was vulnerable to the emergence of vastly improved equipment that would make its own offerings obsolete. Nevertheless, Oreamuno continued buying up the older machines in the hope that the market for the IBM 360 would be very different from MAI's customer base. In 1967, after plans for a merger with Transamerica Corporation suddenly disintegrated, Oreamuno resigned as CEO. He was replaced by Luther Schwalm, a 37-year veteran of IBM who had recently come over to MAI.

Under Schwalm, MAI stopped buying additional punch-card equipment and began leasing peripheral items such as disk drives. By 1968, the errors of MAI's earlier ways became clear, and the company took a $17 million write-down on obsolete punch-card equipment. Customers were replacing the out-of-date IBM machinery so fast that MAI's cash flow sank into negative figures. While the company had $60 million in revenue in 1970, it maintained $140 million in debt and a net worth of negative $28 million. In 1971, MAI chief financial officer Raymond Kurshan took over as president of the company. Realizing that MAI's old business was crumbling, Kurshan sought to move the company into other areas while there was any company left to salvage. MAI was quickly reorganized into a holding company with several subsidiaries.

One of these subsidiaries was Basic/Four Corporation, headed by president Douglas K. Baker. Basic/Four was one of the first independent entrants into the small business computer system arena. It was also the entity that would survive to later form the core of the current version of MAI Systems. The other subsidiaries formed around the same time included Genesis One--whose purpose was to sell off or rent the aging equipment--and Sorbus, which serviced equipment made by other manufacturers. Basic/Four's first product, launched in 1971, was a line of business computer systems for small to medium-sized companies. The computers handled inventory control and general accounting. The high-end Model 500 was capable of accommodating up to eight work stations interacting with each other over telephone lines.

Both the Basic/Four and Sorbus subsidiaries did well enough to bring MAI back to life. Sorbus became profitable by using MAI's pre-existing 1,200-person maintenance staff as its core, and expanding from there. Basic/Four was a major success almost immediately. In 1972, Basic/Four introduced the first multi-user transaction processing mini-computer to use the Business Basic language. By 1975, Basic/Four's revenue had grown to $43 million, and it was contributing around two-thirds of MAI's total earnings.

Basic/Four and other small business computer system pioneers such as Microdata Corporation enjoyed explosive growth through the mid-1970s, as industry giants IBM and Hewlett-Packard fought to catch up with their smaller, more nimble competitors. By the latter part of the decade, in order to remain competitive, MAI began to focus increasingly on software. In 1977, the company acquired Wordstream Corporation, which produced word processing systems and IBM-compatible CRT terminals. Over the next several years, the company introduced several Business Basic-based business software packages that added up to a full set of tools for users of the company's computer systems. MAI's software offerings included EASY (an

exception reporting system) and the Business Data data processing program.
In 1979, MAI launched DataWord II, a terminal that combined data and word processing capabilities. Around the same time, the company brought out a new workstation for its Wordstream shared-logic word processing systems. In spite of these advances, Wordstream became outmoded, as sophisticated word processing systems developed by Wang Laboratories and other companies became increasingly popular. MAI gave up on Wordstream in 1980, although the company continued to offer DataWord II through Basic/Four, as well as maintain support services for all of its word processing systems.

MAI shipped its 10,000th computer system in 1980. The market for business computers began to shift radically during this time, as many small companies were turning to cheaper, newly available personal computers instead of the mini-computers that had been Basic/Four's mainstay. Rather than buying a big computer and tailoring it to their needs with customized software, smaller firms were starting with low-priced PCs, buying application software off the shelf, and adding both hardware and software as it was needed. Although Basic/Four was still generating nearly two-thirds of MAI's revenue, it was becoming less profitable. For 1980, Basic/Four earned $14 million (a 39 percent drop) on sales of $304 million.
In the wake of that performance, Theodore Smith was replaced by Stephen J. Keane as president of Basic/Four.
By 1982, it was clear that MAI had to seek a broader market for its goods in order to compete with IBM, Digital Equipment, and the rest. Revenue had grown to $358 million by that time (55 percent of which was contributed by Basic/Four), but net income had shrunk to $6.3 million. In 1983, the company introduced its MAI 8000, a super-minicomputer nearly as powerful as a mainframe. Capable of serving up to 96 users at a time, the 8000 was MAI's attempt to attract larger businesses into its customer base, after serving mainly the small business system market for its entire history.
The company also chose to intensify its quest for new customers in a handful of specific market niches, including pharmaceutical firms, sewing-goods companies, and non-profit agencies, fields that were already well represented among MAI's 20,000 customers. Basic/Four also expanded its global reach in 1983 with the formation of MAI Australia Information Systems. For fiscal 1983, Basic/Four reported an operating loss of $10.2 million.

By 1984, Basic/Four had a work force of 2,000. That year, New York-based investor Asher Edelman acquired 12 percent of MAI's stock. Edelman then began to wage a proxy war for control of the company, quickly securing four positions on MAI's ten-member board of directors. In the course of the proxy battle, Edelman received a settlement in the $1 million range following a libel suit filed against MAI concerning company advertisements.
Meanwhile, structural changes were taking place within the company. In April 1984, MAI International Corporation, the company's worldwide marketing arm, was folded into Basic/Four. Basic/Four also absorbed another MAI division, MAI Applications Software Corporation.
Edelman managed to gain control of MAI's board in August 1984, when Kurshan resigned his positions as chair, chief executive officer, and president of the company. Once at the company's helm, Edelman immediately set out to liquidate MAI. By early 1985, most of the company's parts had been sold off. The Sorbus division was sold to a subsidiary of Bell Atlantic Corporation, while Basic/Four was purchased by investor Bennett S. LeBow in a leveraged deal worth about $100 million.

Now independent, Basic/Four inherited the initials of its former parent company, and was renamed MAI Basic Four, Inc. Prior to its purchase by LeBow, Basic/Four had been unprofitable. Weighted down by outdated technology and a marketing set-up that had never performed up to par, the company appeared to be failing. Under LeBow, the company's first move was to sell its Canadian subsidiary, MAI Canada Ltd., to Bell Atlantic for roughly $23 million. With cash from that sale, LeBow set out to reshape MAI by concentrating on its strengths, specifically its 27,000-customer base of Basic/Four computer users that was generally committed to the company's products. He also sought to exploit the company's 35-country distribution system and its overseas maintenance operation, which had been one of its few bright spots in recent years.

As a result, MAI enjoyed a renaissance that lasted for the next few years. While LeBow retained the company's chairmanship, the job of rebuilding MAI into a profitable company fell largely to William B. Patton, former president and CEO of Cado Systems Corporation. Accorded the same titles at MAI, Patton quickly took actions to cut MAI's costs dramatically. First, more than half the company's vice-presidents were let go. Then, in order to slash manufacturing costs, Patton began buying components from Asia, specifically Japan, Korea, Taiwan, and Singapore, rather than having them built at home. Realizing that the quality of the products was not enough to guarantee healthy sales, he also beefed up the company's direct sales staff. Under Patton, the company narrowed its sales focus to eight vertical markets, including hotels, retailing, apparel, manufacturing, and health care. The resurrection of MAI under Patton's guidance was rapid. For the fiscal year ending in September 1986, the company earned nearly $17 million on sales of $281 million. The company also went public again during that year.

By 1987, nearly two-thirds of MAI's total sales were coming from overseas, and half of the parts used in its manufacturing operations were from outside the company. Although MAI's installed customer base of 37,000 represented less than one percent of the worldwide mini- and microcomputer market, the company worked directly with independent software developers in each of its target industries to generate specific solutions for users of its computer systems. MAI introduced several new products during this period. In 1986, the company unveiled a mid-range computer system called the MAI 3000, which was followed up in 1987 by the MAI 4000, an expandable mid-range multi-user system. Both sales and profits at MAI took sizable leaps in 1987, reaching $22.8 million and $321 million, respectively.

With much of the debt from its leveraged buyout erased, MAI began buying up existing firms. By early 1988, the company had acquired 25 small software, distribution, and maintenance companies. It also bought back MAI Canada, the Canadian distribution subsidiary it had sold off to Bell Atlantic a few years earlier for much needed cash. Part of its former U.S. service subsidiary, Sorbus, which had been sold off by Edelman during liquidation, was also repurchased. Business peaked in 1988, when MAI earned net income of $24.5 million on $420 million in revenue.

Some setbacks occurred in 1989, however. Sales had begun to slip during the second half of 1988, and LeBow had announced that his controlling interest in MAI was available for purchase. When no buyers materialized, LeBow changed his strategy. In November 1988, MAI launched a surprise takeover bid for the much larger Prime Computer Inc., a Massachusetts-based rival. Meanwhile, the entire U.S. computer industry fell into a tailspin that saw sales decline across the board. In June 1989, in the thick of the bid for Prime, Patton suddenly resigned. The takeover bid eventually failed, after costing MAI $25 million over nine months in addition to a fair amount of bad publicity and hard feelings among customers. The emergence of multi-user personal computers continued to erode the company's sales as well.

In August 1989, MAI announced plans for a major restructuring of the company in order to cut costs and regain its momentum. An infusion of $55 million in cash came from Brooke Partners L.P., an investment group controlled by LeBow, giving Brooke a majority ownership in MAI. Sales continued to recede, however, and for 1989 the company suffered a net loss of $39 million on revenue of $397 million. In early 1990, Fred D. Anderson, with the company since 1978, became president and chief operating officer. William Weksel, who had been filling in as president and CEO, replaced LeBow as chairperson and remained CEO. LeBow's new position was chair of the board's executive committee.

In 1990, MAI developed Open BASIC, which enabled the company's software to run on a variety of operating systems. The company paid $1.9 million in April of that year for the outstanding stock of Computerized Lodging Systems, Inc., a maker of software systems for the hotel industry. Later in the year, the company's name was changed; Basic/Four was dropped in favor of MAI Systems Corporation. Weksel left the company in December to pursue other business interests, and LeBow returned to the posts of chairperson and chief executive of MAI. However, the red ink continued to flow through 1990, as the company recorded a net loss of $64 million on sales of $389 million.

With its core small computer market continuing to decline, MAI shifted its strategy radically in 1991. Around that time, the company began phasing out its manufacturing operations, transforming itself into a value-added reseller of equipment made by other companies. In May 1991, Peter

Anderson was named to replace Fred Anderson as president and CEO of MAI. The company continued its cost-cutting efforts, reducing personnel and streamlining operations wherever possible. In spite of these efforts, MAI's finances continued to deteriorate, culminating in a loss of $182 million in fiscal 1992. In March 1993, a group of banks took control of MAI's European subsidiaries in exchange for the release of $84 million in debt. The company filed for Chapter 11 bankruptcy protection the following month while it concocted a reorganization plan.

MAI emerged from bankruptcy in November 1993 as a much leaner version of its former self. The company reported revenue of $115 million for 1993. Most of this dramatic reduction in sales stemmed from the elimination of its European subsidiaries. MAI entered 1994 on a high note, releasing several software products for its target industries in the first half of the year. Management at MAI hoped that the company, in its new streamlined form, was primed for yet another ascent.

Principal Subsidiaries

Computerized Lodging Systems, Inc.; Sextant Corporation.

Further Reading

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— Robert R. Jacobson